

Message Text

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ACTION NEA-11

INFO OCT-01 ISO-00 AID-05 EB-08 TRSE-00 OMB-01 COME-00

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 7581

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E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: GOP LOANS RECOVERY ORDINANCE

REF: ISLAMABAD 5555

1. A RECENTLY PROMULGATED ORDINANCE SETS UP SPECIAL SUMMARY COURTS TO SPEED UP RECOVERY OF LOANS MADE BY NATIONALIZED PAKISTANI BANKS AND THE PAKISTAN INDUSTRIAL CREDIT CORPORATION (PICIC) WHICH ARE OR HAVE BECOME INSUFFICIENTLY SECURED. THE ORDINANCE, PROMULGATED BY THE PRESIDENT, WILL COME INTO FORCE "ON SUCH DATE AS THE FEDERAL GOVERNMENT MAY APPOINT IN THIS BEHALF".

2. AMCONGEN KARACHI REPORTS THAT FOREIGN BANKS ARE TAKING A DIM VIEW OF THE ORDINANCE AND WOULD LIKE "EQUAL POWERS AND BACKING" TO "POLICE" THEIR OWN CUSTOMERS. GRINDLAY'S BANK (UK-OWNED WITH 49 PERCENT CITIBANK PARTICIPATION) HAS PROTESTED THE ORDINANCE AND THE NEW RESERVE REQUIREMENTS (REFTEL) TO THE STATE BANK OF PAKISTAN AND HAS REQUESTED ASSISTANCE FROM THE BRITISH EMBASSY IN PRESENTING ITS CASE. NO SUCH REQUEST HAS BEEN MADE OF US.

3. COMMENT: THERE HAVE BEEN PERSISTENT RUMORS THAT DURING BHUTTO'S ADMINISTRATION MANY PAKISTANI BANKS MADE IMPRUDENT LOANS

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UNDER POLITICAL PRESSURE AND THUS HAVE RATHER SHAKY LOAN PORTFOLIOS. THIS ORDINANCE COULD BE USED BY THE GOP TO CLEAR UP THE BANKS' PORTFOLIOS WHILE, INCIDENTALLY, HARRASSING BHUTTO SUPPORTERS.

4. PICIC HAS ALSO COME UNDER PRESSURE FROM THE IBRD, A MAJOR SOURCE OF PICIC FUNDS, TO DO SOMETHING ABOUT ITS POOR COLLECTION

RECORD. THE ORDINANCE WILL BOLSTER PICIC'S CASE FOR CONTINUED
IBRD SUPPORT.

5. FOREIGN BANKS NATURALLY VIEW BOTH MOVES AS DISCRIMINATORY
SINCE THEY ESTABLISH UNEQUAL TREATMENT OF FOREIGN AND DOMESTIC
BANKS. AN OFFICIAL IN THE FINANCE MINISTRY TOLD US THAT IF
FOREIGN BANKS ARE ADVERSELY AFFECTED BY THESE ACTIONS, A LIST OF
SUCH CASES SHOULD BE BROUGHT TO THE ATTENTION OF A.G.N. KAZI,
ADVISOR TO THE CMLA FOR FINANCE. SINCE TALKING WITH THE FINANCE
MINISTRY WE UNDERSTAND THAT CITIBANK WILL BE REQUESTING OUR
ASSISTANCE AND WE ARE CONSIDERING WHAT STEPS WE SHALL TAKE.
HUMMEL

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